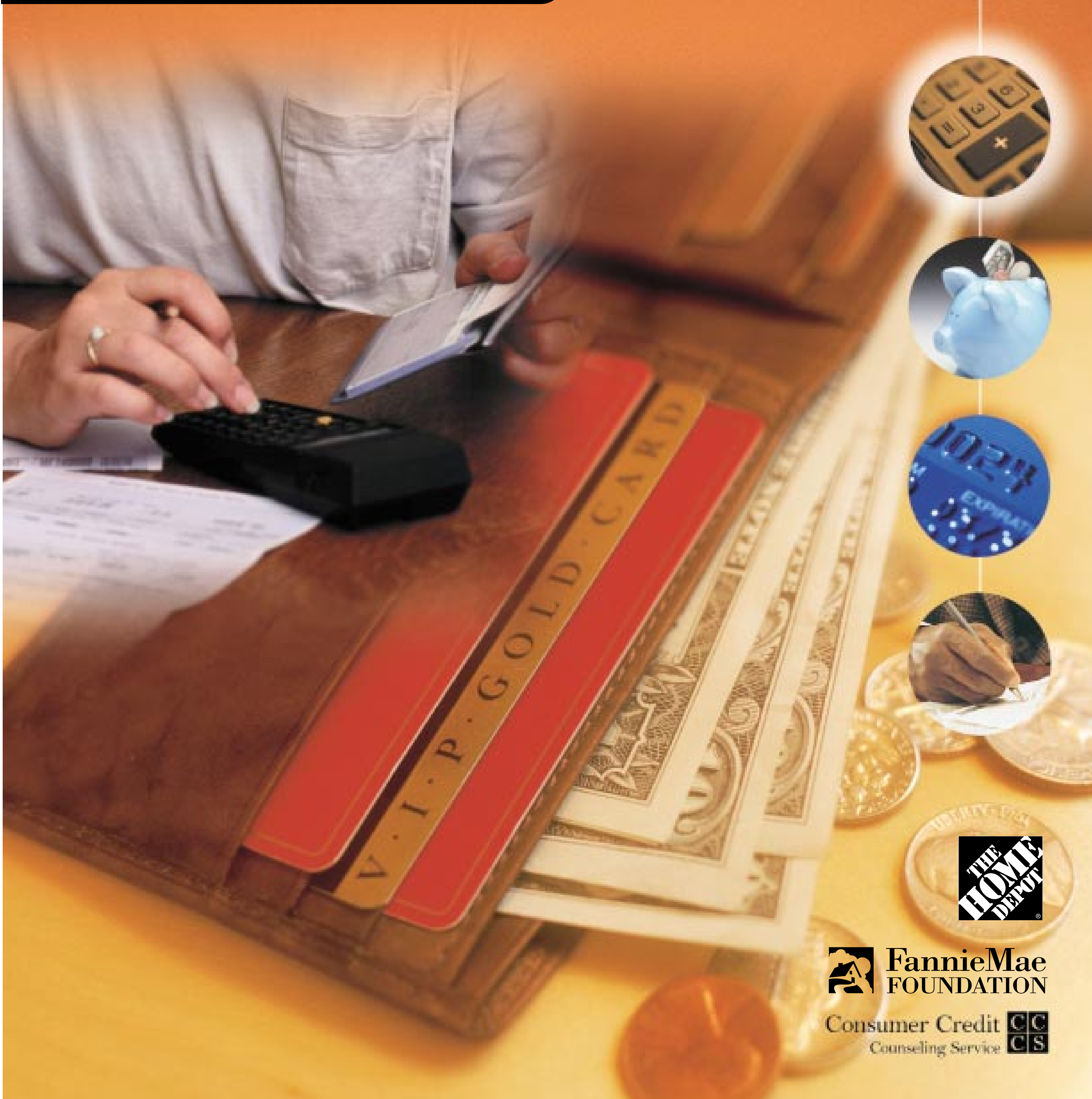
Personal Financial Skills:

WORKBOOK 1:
Developing a Spending Plan



THE HOME DEPOT

FannieMae FOUNDATION

Consumer Credit Counseling Service

Personal Financial Skills

Realizing Your Financial Goals

Whether you want to buy a home, start a business or pay off your debt, personal financial skills are the first step to taking control of your financial future. The Personal Financial Skills workbook series will help you learn the necessary skills to maintain a family spending plan, use checking and savings accounts, build or repair your credit history, and apply for a loan. Regardless of your age, occupation or financial management experience, you will find useful skills and tips throughout this self-study material. Enjoy!

FannieMae FOUNDATION

The Fannie Mae Foundation creates affordable homeownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the United States. The Foundation is specially committed to improving the quality of life for the people of its hometown, Washington, DC, and to enhancing the livability of the city's neighborhoods.

THE HOME DEPOT

The Home Depot is the largest retailer in the home improvement industry. Our goal is to provide the highest level of customer service, the broadest selection of products and the most competitive prices. We are a values-driven company and our eight (8) core values include the following: Excellent customer service • Taking care of our people • Giving back • Doing the "right" thing • Creating shareholder value • Respect for all people /Entrepreneurial spirit • Building strong relationships.

Consumer Credit Counseling Service

Consumer Credit Counseling Service empowers people to enjoy a lifetime of economic freedom. CCCS educates all segments of society in the wise use of credit and provides an impartial forum for resolving debt problems. Named Agency of the Year for 1999 and 2000 by the National Foundation for Credit Counseling, CCCS Atlanta is the nation's premier debt-management service organization, characterized by excellence, integrity and technological innovation.

Table of Contents

Introduction

So, you want to take control of your financial future –

You've come to the right place. This self-study workbook series will help you to develop critical skills for financial independence. There are four workbooks:

Workbook 1: Developing a Spending Plan
Workbook 2: Working with Checking and Savings Accounts
Workbook 3: Understanding Credit and Your Credit Report
Workbook 4: Getting a Loan

Developing personal financial skills is the first step to taking control of your financial future. We have written these workbooks to help you learn financial skills that will give you the ability to plan your future. The following steps will help you use this workbook as a guide for your independent learning:

1. Begin each chapter by quickly scanning the headings. This will give you a basic idea of what you will be studying.
2. Each chapter has a number of subsections. Each subsection begins with study objectives stated as questions. To complete this workbook you will need to be able to answer these questions. As you read and find the answers, underline or highlight them for later reference. It is important to underline and write in this book to reinforce your learning.
3. All bold terms are defined in the workbook glossary. Refer to the glossary to assist you.
4. A short self-assessment follows each subsection. This will help check and reinforce what you have read. Answer each question and then check your answers at the bottom of the exercise.
5. At the end of each chapter you will find a Knowledge Review. Use this opportunity to review the concepts discussed in this workbook.
6. You will need a pencil and a calculator to complete this workbook.

Study Objectives

Underline/highlight the answers to these questions as you read:
1. **What are savings goals?**
2. **How do you create savings?**

Workbook Objectives

In this workbook we will discuss how to:
- develop financial goals
- develop a spending plan
- use your spending plan to meet your financial needs and goals

Do you ever wonder where all your money goes? Can you only afford the **minimum payment** on bills? Are there things that you wish you could afford to do?

Developing a spending plan will help you to take control of your financial future. It will require some time and effort, but you can learn how to make the most of what you have. This workbook includes a series of worksheets to help you develop your plan as well as an extra set for future use (see Appendix A: Additional Spending Plan Worksheets).

Your Spending Experience Exercise

Each of us handles our money differently. How much do you know about your spending habits? Answer the following questions to find out.

1. Do you know how much you spend each week?

   ____

   ____

2. Do you know how much you spend each month?

   ____

   ____

3. How do you decide to spend money?

   ____

   ____

4. Have you ever compared your monthly income to your monthly expenses?

   ____

   ____

5. Do you have a plan for saving and spending money?

   ____

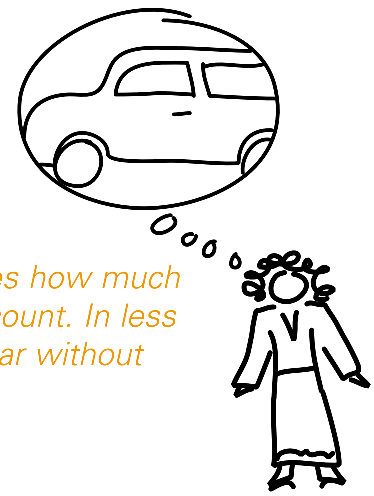
   ____

Savings Goals

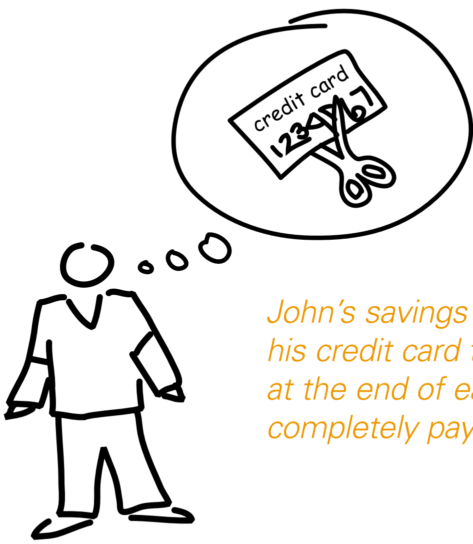
If you had $3,000, what would you do with it? Would you want to pay off debt? Buy a new car? Invest some money in the stock market? What do you wish you could afford to do?

Savings goals are statements about things you wish you could afford. You can accomplish these goals if you manage your finances and put money (savings) aside on a regular basis.

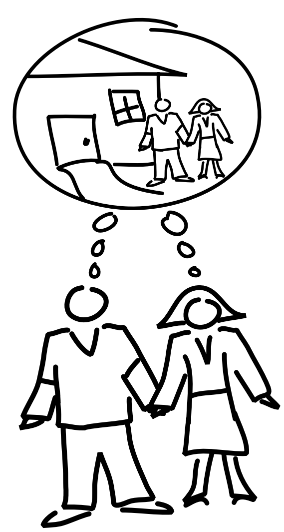
Example:



Elouise's savings goal is to buy a car. She carefully watches how much she spends and puts $30 each month into her savings account. In less than four years, she saves enough money to buy a used car without taking out a loan.



John's savings goal is to pay off his $1,200 credit card debt. He stops using his credit card to make purchases. He manages his weekly expenses so that at the end of each month he has $50 to pay off his debt. In two years, John completely pays off his debt and is ready to start saving toward his next goal.



Lucy's and Justin's savings goal is to buy a house. To save for their down payment, they decide to go out to eat less often, bring their lunch to work, and carefully watch spending. With these efforts, they are able to put aside $200 a month towards their goal. After two years, they purchase their first home.

Savings Goals Worksheet

Savings goals are best when they are specific and measurable. Try to identify some short- and long-term goals for yourself, the approximate costs, and target dates for achieving them.

Short-term goals: Things that you can save enough money for in a few weeks or months.

Long-term goals: Things that you can save enough money for in a few years.

Short-Term Goals			Long-Term Goals		
Item	Specific Cost	Target Date	Item	Approx. Cost	Target Date

No matter how much money you make, you can create savings. However small, there can almost always be a difference between what you earn and spend. You can build wealth by putting aside small amounts of money on a regular basis. Over time, your savings will grow. Having savings gives you the opportunity to improve your quality of life.

Self-Assessment 1

1. Savings goals are:
   - ❏ a. things you want.
   - ❏ b. things you have.
   - ❏ c. statements about items you plan to purchase by putting aside money on a regular basis.

2. You create savings by (check all that apply):
   - ❏ a. spending less than you earn.
   - ❏ b. spending more than you earn.
   - ❏ c. putting aside small amounts of money on a regular basis.

How did you do?: 1.c 2.a,c

Study Objectives

Underline/highlight the answers to these questions as you read:

1. **What is a spending plan?**
2. **What is tracking?**
3. **How do you pay the least amount of interest on revolving debt?**
4. **How do you calculate total monthly spending and income?**

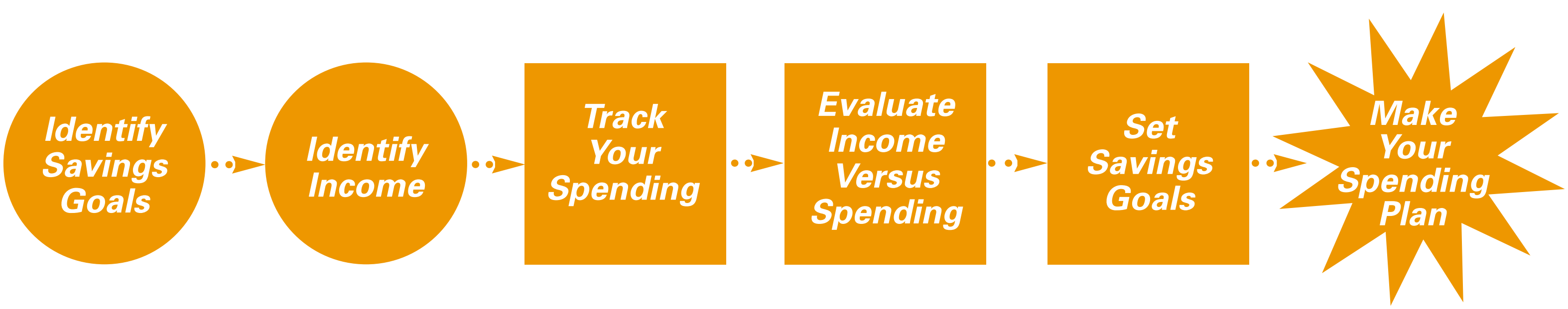
Developing a Spending Plan

You can reach your savings goals by using a **spending plan**. A spending plan is a strategy for saving and spending money. It is meant as a guide to help you track how much money comes into your home and how it needs to be divided to meet expenses and savings goals.

A spending plan is the first step in taking control of your personal finances. Spending plans can be used to:

- **Help you put aside money to reach your savings goals.** If your goal is to save money for some purpose (e.g., travel, a car), but you find yourself without any extra dollars at the end of the month, a spending plan can help you reach your goal.
- **Help you prepare for expenses.** There are some expenses that occur on a weekly or monthly basis (e.g., groceries, rent, gas) and others that occur once or twice a year (e.g., car insurance, holiday presents). If you have a sense of these expenses ahead of time, you can prepare by setting money aside on a regular basis.
- **Help you prepare for unexpected expenses.** While it is hard to predict some expenses,such as fixing your car, you can use your spending plan to set aside a little extra money each month for unexpected needs.
- **Help you take control of how you spend your money.** As you pay more attention, you may realize that you are spending a significant amount of money without thinking about it. For instance, a $2.00 coffee latte (or two cans of soda) each day adds up to more than $520 dollars a year. A good spending plan helps you make decisions about how to spend your money so that you can afford the things you want.

Developing a spending plan is a process. While it can take a number of months to create a plan, it is well worth the effort.



Become aware of the flow of money through your household.

Evaluate the difference between monthly income and monthly spending.

Plan to set aside savings each month.

Set savings and spending goals. Track your ability to meet them and stay within your income.

Identify Income

The first step to develop a spending plan is to identify the money that comes into your household—your income. People talk about their income in two ways. **Gross income** is the money you receive before any deductions. **Net income** is the money you take home after all of the deductions have been made, such as taxes, Social Security, insurance, 401(k), and your stock purchase plan. List your monthly net income under Regular Monthly Income. Then list any annual or seasonal income on the corresponding chart (e.g., holiday bonus or income from selling homemade crafts, etc.).

Remember to include:

- Salary
- Food stamps
- Seasonal earnings
- Other money

Monthly Income Worksheet

List your regular, annual, and seasonal income on the following charts. Then complete the estimated monthly income calculation.

REGULAR MONTHLY INCOME

Salary	**$**
Food stamps	**$**
	$
	$
TOTAL	**$**________________

ANNUAL & SEASONAL INCOME

Income	**Total Income**	**Divided by 12 (or six)**	**Estimated Monthly Income**
Seasonal earnings			
		TOTAL	**$**________________

Calculate your total monthly income.

ESTIMATED MONTHLY INCOME

Regular Monthly Income Total	+	**Annual & Seasonal Income Total**	=	**Estimated Monthly Income Total**
$______________	+	**$**______________	=	**$**______________

Track Your Spending

Money Tracker Worksheet

Sometimes we spend money without even thinking about it. **Tracking** is becoming aware of the flow of money through your household. For the next few weeks use the Money Tracker Worksheet to keep track of everything you spend each day.

SUNDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

MONDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

TUESDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

WEDNESDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

THURSDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

FRIDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

SATURDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

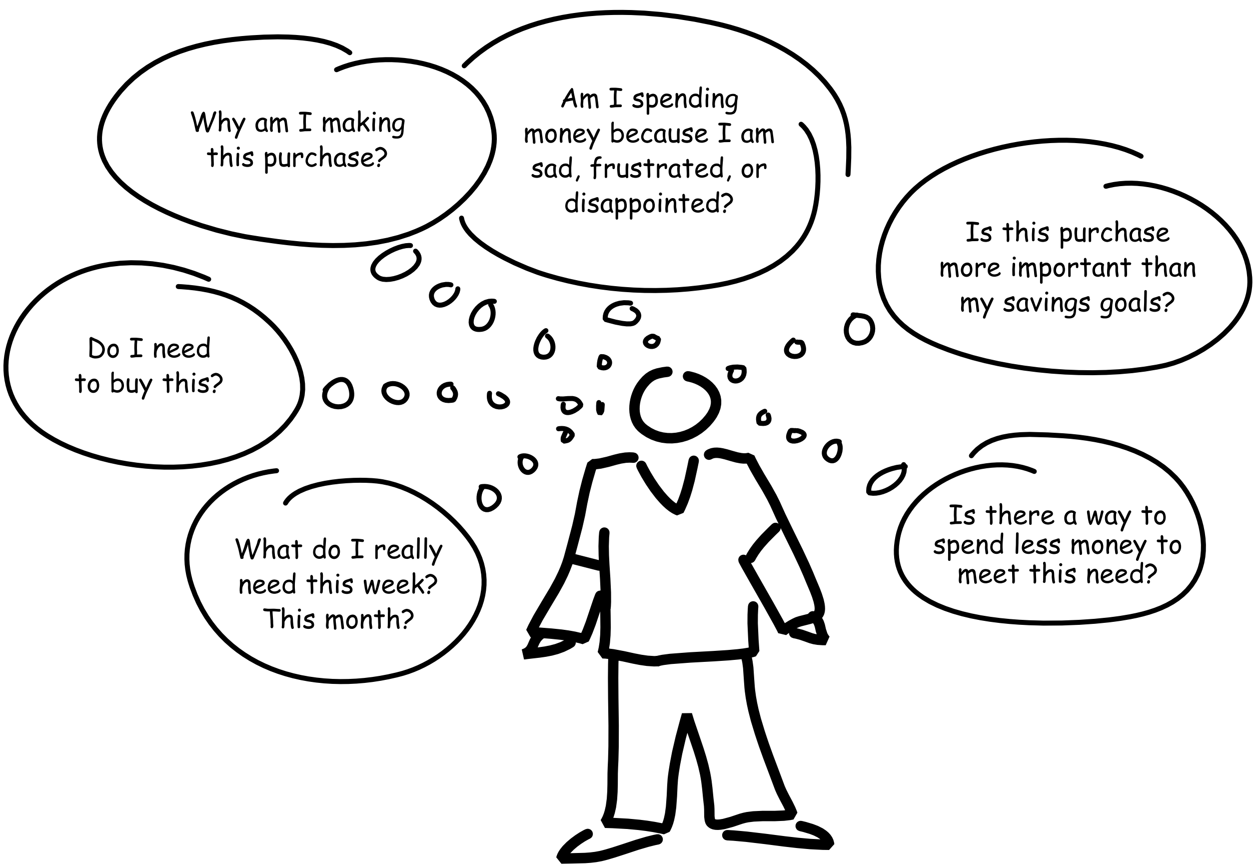
Daily Total $ ________

Weekly Total $ ________

"Needs" Versus "Wants"

Do you "need" everything you buy? Needs are items that are essential based on your lifestyle and values. Housing, groceries, and education qualify as needs. Wants are items that you desire, but are not necessary, such as a snack or expensive clothes. Sometimes we purchase things we want because advertising has led us to think we need them. Often times we purchase things in response to an emotion, such as shopping when you are sad or disappointed. Try to become more aware of how much you are spending and why you are spending money.

Evaluate your week's spending on the Money Tracker worksheet (page 8). Circle "want" items that you could have gone without. Calculate how much money you could have saved by adding all of the circled items and recording the total. $ ____________________



Monthly Expenses Worksheet

Estimate your monthly expenses using the following workseet. Do not include debt or items you purchase a few times each year. Add any additional items that you regularly purchase.

HOUSING	
Rent/Mortgage	$
Taxes (property)	$
Gas/Electricity	$
Water/Sewer/Garbage	$
Telephone	$
Other	$

FOOD	
Groceries	$
Meals out	$
Other	$

AUTO	
Car payment(s)	$
Gas	$
Maintenance/Repairs	$
Parking	$
Other	$

HEALTH	
Medical	$
Dental	$
Optical	$
Other	$

CLOTHING/PERSONAL	
Clothes for family	$
Shoes	$
Work gear	$
Laundry/Dry cleaning	$
Haircuts	$
Nails	$
Cosmetics	$
Toiletries	$
Other	$

ENTERTAINMENT	
Going out	$
Activities	$
Vacation/Travel	$
Books/Music	$
Hobbies	$
Cable/Movies/ Movie rental	$
Other	$

FINANCE	
Check cashing	$
Cashier's checks	$
Bank fees	$
Taxes	$
Other	$

OTHER	
Child care	$
Child support	$
Charity/Religious donation	$
Education	$
Dues/Subscriptions	$
Pets	$
Allowances	$
Gifts	$
Cigarettes	$
Sporting events	$
Children's activities	$
Other	$

SAVINGS	
Savings account	$
Investments	$
IRA	$
Other	$

Estimated total monthly expenses $ ______________

Annual Expenses Worksheet

In addition to your monthly spending, you'll want to think about those bills that come due every few months. If you do not know how much you spend, then look in your files, call the insurance company, or track the bills as they come in. The following worksheet will help you calculate the amount you need to put aside each month to prepare for annual expenses. Do not include costs you put on the Monthly Expenses worksheet.

What costs do you have once or twice a year?

Expenses	Total Cost	Divided by 12 (or six)	Total to be Saved Each Month
Example expense	$300/year	$300/12 months = $25 per month	$25
Taxes			
Car insurance			
Property insurance			
Holiday presents			
Travel			
Dues/Subscriptions (newspaper, etc.)			
Home maintenance			
Auto maintenance			
Pet care			

Total to be put aside for annual expenses each month $ ________________

Debt Tracking Worksheet

Your spending plan needs to include a strategy for paying off your debt. Some types of debt (i.e., installment credit, such as car loans) require a set monthly payment that will need to be a part of your spending plan. Other types of debt allow you to pay a minimum payment each month (i.e., revolving credit, such as a credit card). Try to repay more than the minimum payment each month.

Example:

If you owe $1,500 on your credit card and are paying 19% annual interest, your minimum payment is probably around $30 a month. At this rate, it will take you more than eight years to pay off your debt. In addition to your $1,500 original debt, you will pay $1,495 in interest payments.

If you increase your monthly payment from $30 to $50 each month, it will only take three and a half years (versus eight years). In addition to your $1,500 original debt, you will pay $550.89 in interest payments. This means that by putting aside an extra $20 a month to pay off your debt, you save $944 in interest payments.

List your debt on the following chart. Record the minimum payment required each month as well as the amount you can afford to repay.

Credit Cards/Loans Credit w/Local Business	Total Amount Owed	Annual Interest Rate	Minimum Payment Required	Amount You Can Pay Each Month
Example: credit card	$1,500	19%	$30/month	$50/month

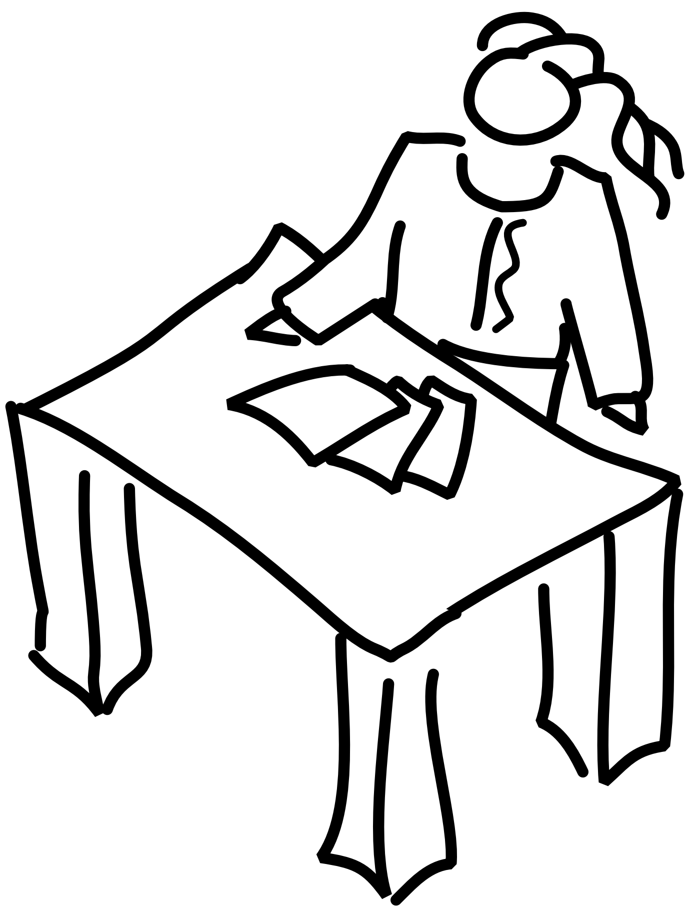
Estimated total debt payment you can make each month $____________

Calculate Total Monthly Spending

Calculate your total monthly spending by adding the totals from each worksheet.

ESTIMATED TOTAL MONTHLY SPENDING

Estimated Total Monthly Expenses (p. 10)	+	Estimated Total Monthly Annual Expenses (p. 11)	+	Estimated Total Monthly Debt Payment (p. 12)	=	Estimated Total Monthly Spending
$__________	+	$__________	+	$__________	=	$__________



Self-Assessment 2

1. A spending plan is (check all that apply):
   - ❑ a. a computer program that tells you how much to spend each week.
   - ❑ b. a guide to help you track how much money comes into your house and how it needs to be divided to meet expenses and savings goals.
   - ❑ c. a strategy for saving and spending money.

2. Total monthly income is calculated by adding ___________ income plus ________ income.
   - ❑ a. net, bonus
   - ❑ b. monthly, seasonal
   - ❑ c. gross, additional

3. Tracking is (check all that apply):
   - ❑ a. following something very quietly.
   - ❑ b. being aware of the flow of money through your household.
   - ❑ c. keeping track of what you spend.

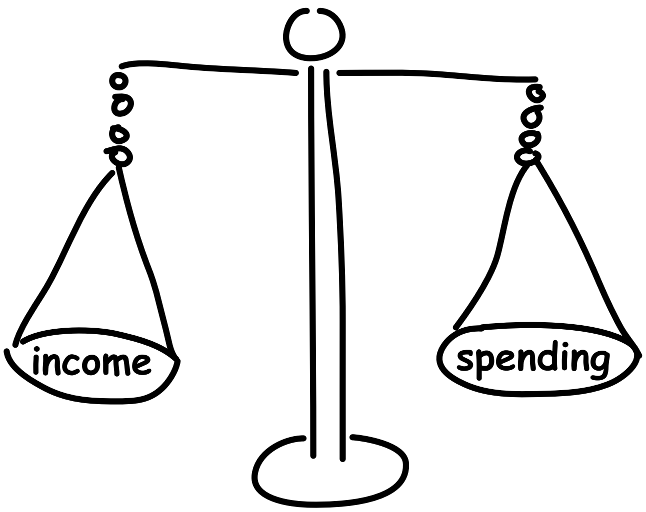
4. You pay the least amount of interest on credit card debt by (check all that apply):
   - ❑ a. spreading your payments over time to keep your monthly costs down.
   - ❑ b. paying off your debt as quickly as possible.
   - ❑ c. repaying the maximum you can afford each month.

5. You can calculate total monthly spending by:
   - ❑ a. taking the sum of your estimated monthly spending, estimated monthly annual spending, and estimated monthly debt payment.
   - ❑ b. adding the totals of your bills each month.

How did you do?: 1.b,c 2.b 3.b,c 4.b,c 5.a

Evaluate Income Versus Spending

To maintain your household and reach your savings goals, your income must be greater than your spending. Now that you have tracked your income and spending, it is time to compare them. You will need to calculate the difference between your estimated total monthly income and estimated total monthly spending. Then you will evaluate this difference.



Study Objectives

Underline/highlight the answers to these questions as you read:

1. **Why do you evaluate the difference between your income and spending?**
2. **What does a negative difference between monthly income and monthly spending mean?**
3. **What are the three categories of expenses?**
4. **How can you decrease your monthly spending?**

Calculate the Difference Between Income and Spending

Complete the following calculation to arrive at the difference between your estimated monthly income and estimated monthly spending.

DIFFERENCE BETWEEN MONTHLY INCOME AND MONTHLY SPENDING

Estimated Total Monthly Income (p. 7)	–	Estimated Total Monthly Spending (p. 13)	=	Difference
$____________	–	$____________	=	$____________

Evaluate the Difference

When you calculate the "difference" between estimated total monthly income and estimated total monthly spending, you will come up with either a positive or negative number.

- **A positive number means that you have more income than you spend each month.** Good work. You might consider paying off your debts more quickly and/or putting aside more money toward your savings goals.

- **A negative number means that you spend more than you make.** You are going into debt. This number is the amount of money you need to cut from your spending each month. If it is a serious difference, you might consider ways to increase your income until you can get your spending under control.

If your spending is greater than your income, or if you would like to increase the difference between your income and spending, there are two options—reduce your spending or increase your income. Think of some ways to do both and list them below.

Ways to reduce spending	Ways to increase income

To decrease the amount you are spending, consider your different types of expenses. Expenses can be put into three basic categories:

1. **Fixed expenses** are monthly costs that do not change very much (unless you specifically change circumstances, such as move to a less expensive apartment):
   - Rent/Mortgage payments
   - Car payments
   - Loans

2. **Flexible expenses** are monthly costs that you control:
   - Groceries
   - Long-distance telephone bill/cell phone bill
   - Utilities
   - Gas
   - Car maintenance
   - Credit card payments
   - Savings

3. **Luxury expenses** are monthly costs that you choose:
   - New clothes
   - Going out to eat
   - Entertainment
   - Gifts

*If you need to decrease your monthly spending, you will first want to look at lowering your **"flexible"** and **"luxury"** expenses.*

It may help to ask yourself the following questions:
- *What are your biggest expenses? How might you decrease them?*
- *What do you purchase in the "luxury" expenses category? Are these purchases less important than your short-term savings goals? If so, then you may want to consider not spending that money.*

If you're not satisfied with the difference between your expenses and income, and you can't figure out how to create savings—consider calling Consumer Credit Counseling Service (CCCS) toll-free at 1-866-499-8771. A CCCS counselor will help you with your personal situation and identify steps to move toward your goals.

SELF-ASSESSMENT 3

1. True or False. You evaluate the difference between your income and spending plan to avoid going into debt and prepare for reaching your financial goals.
   - ❑ a. True
   - ❑ b. False

2. A negative difference between monthly income and monthly spending means that (check all that apply):
   - ❑ a. your income is greater than your spending.
   - ❑ b. your spending is greater than your income.
   - ❑ c. you need to decrease your expenses or increase your income.

3. The three categories of expenses are:
   - ❑ a. fixed, flexible, and luxury.
   - ❑ b. bills, entertainment, and other necessities.

4. You can decrease your monthly spending by (check all that apply):
   - ❑ a. decreasing flexible expenses.
   - ❑ b. decreasing luxury expenses.
   - ❑ c. not purchasing items that are less important than your savings goals.

How did you do?: 1.a 2.b,c 3.a 4.a,b,c

Study Objectives

Underline/highlight the answers to these questions as you read:

1. **What is the emergency reserve fund and why is it important?**
2. **What is the difference between short-term goals and long-term goals?**

Set Savings Goals

The difference between your income and spending is money you can save. Develop three categories of savings goals.

Think about putting aside money in three categories:

1. **Emergency reserve fund**—this is money you put into an account and leave there until there is an emergency. Try to put aside two months' living expenses. Avoid using this money.
2. **Short-term goals**—this is money you put into an account and take out as you are able to afford your goals. You should be able to reach your short-term goals after a few weeks or months of consistent saving.
3. **Long-term goals**—this is money you invest or set aside for a larger purchase. It may take a few years of consistent saving to reach your long-term goals.

Savings Goals Worksheet

Complete the following worksheet. You might want to refer back to the worksheet on page 5 for some ideas.

Emergency Reserve Fund	Approx. Amount	Target Date

Short-Term Goals	Approx. Cost	Target Date

Long-Term Goals	Approx. Cost	Target Date

Self-Assessment 4

1. If you consistently save, you should be able to reach your short-term savings goals in a few __________. On the other hand, it may take a few _________ to reach your long-term savings goals.
   - ❏ a. years, months
   - ❏ b. months, years
   - ❏ c. weeks, months

2. True or False. You withdraw money from your emergency reserve fund on a regular basis to pay your bills.
   - ❏ a. True
   - ❏ b. False

How did you do?: 1.b 2.b

Study Objectives

Underline/highlight the answer to this question as you read:

1. How can you use a spending plan as a tool to manage your money?

Make Your Spending Plan

After you have tracked your spending, evaluated spending versus income, and identified savings goals, you are ready to make your Spending Plan. Use the Spending Plan worksheet to pull all of the information you have collected together.

Spending Plan Worksheet

The Spending Plan worksheet is a tool to manage your money over time. Complete the following steps to use this worksheet:

A Income Section

1. Record your income for the month. Use the information you collected on the Monthly Income worksheet (page 7).
2. Track your income each week.
3. Calculate your total income at the end of the month. Add the amounts listed under "Total Income for Month."

B Savings Section

1. Set savings goals for yourself in each category.
2. Track your savings each week.
3. Calculate your "Total Saved for Month" in each category.
4. Compare your "Savings Goal for Month" with your "Total Saved for Month" in each category.
5. Calculate your total savings for the month. Add the amounts listed under "Total Saved for Month."

C Spending Section

1. List the items you tracked on the Monthly Expenses worksheet (page 10), Annual Expenses worksheet (page 11), and Debt Tracking worksheet (page 12).
2. Set spending goals for yourself. List these goals in the "Amount Budgeted for the Month" column. Be realistic based on the information you collected on your tracking worksheets.
3. Track your spending each week. Remember to include day-to-day expenses.
4. Calculate the "Total Amount Spent for the Month" in each category.
5. Determine if you spent more or less than your spending goals. Subtract the "Amount Spent for the Month" from the "Amount Budgeted for the Month." Record the difference in the "Difference between Budget and Spent" column.
   - If the difference is a negative number, this means that you are spending more than you budgeted. You will need to consider ways to spend less in this category each week.
   - If the difference is 0 or a positive number, then you are spending within your budget. Good for you! Consider using extra money left in your budget to increase your debt repayment for the month or increase your savings.
6. Calculate your total monthly spending. Add the amounts listed under "Total Spent for the Month."

Spending Plan Worksheet

A

	Income for Month	Week 1	Week 2	Week 3	Week 4	Total Income for Month	
Income							
Other $							

a TOTAL INCOME ____________

B

	Savings Goal for Month	Week 1 Saved	Week 2 Saved	Week 3 Saved	Week 4 Saved	Total Saved for Month	
Savings							

b TOTAL SAVINGS ____________

C

	Amt. Budgeted for Month	Week 1 Spent	Week 2 Spent	Week 3 Spent	Week 4 Spent	Total Spent for Month	Difference (Budgeted – Spent)
Spending							

D Assess Your Monthly Finances

1. Subtract your total savings and spending from your total income.
    - If the difference is a negative number, this means that you are saving and spending more than your income. You are going into debt. You will need to consider ways to spend less each week. You may need to decrease the amount you are saving until you can manage your spending better.
    - If the difference is 0 or a positive number, then you are saving and spending within your income. Good for you! Use extra money to increase your debt repayment or savings.

Spending Plan Worksheet (cont.)

	Amt. Budgeted for Month	Week 1 Spent	Week 2 Spent	Week 3 Spent	Week 4 Spent	Total Spent for Month	Difference (Budgeted – Spent)
Spending							

c TOTAL SPENDING ____________

D *Assess Your Monthly Finances*

Total Income (a) $______________ – Total Savings (b) $______________ – Total Spending (c) $______________ = $______________

Using Your Spending Plan

Your spending plan is a tool to help you realize your goals and manage your spending. It should not feel confining or unrealistic. Consider the following approach:

- Buy what you "need."
- Play with a little.
- Save the rest.

While we all have good intentions, it is hard to stick to a spending plan. Sometimes an unexpected bill shows up or your friends invite you out to dinner when you had planned to eat at home. Unfortunately, there is no magic way to make these situations easier, yet, over time, you may develop creative ways to handle them (e.g., suggest your friends get together for a potluck instead of going out). Ultimately, you are going to have to want to stick to your spending plan for it to work.

The following are some tips for managing spending. See if you can add some of your own to the list.

Tips for Managing Money

Include the whole family in your spending plan. It is important that your entire family be involved in this process. Set aside some time to go over your spending plan with the members of your family. Discuss financial goals such as buying a house, paying off debt, buying new basketball shoes, or paying for college. Suggest ways that everybody can contribute to the family's success by sticking to the spending plan, for instance:

- Use direct deposit to have your paycheck automatically put into your checking account.
- Turn off the lights to save money on the electric bill.
- Ask your utility company about budget billing to keep your bills consistent throughout the seasons.
- Research the different telephone service plans available through your provider.
- Look for sales before making purchases.
- Set weekly or monthly allowances for spending and keep track of money spent.
- Buy only things you really need—not things you want.
- Eat at home. Take your lunch to work.
- Label envelopes with weekly expenses (e.g., gas, groceries). Put only the cash you want to spend in each envelope. When the money runs out, you are done until your next paycheck.
- Make a shopping list before you go to the grocery store. Pay with cash. Use coupons.
- Avoid check-cashing stores, pawnshop loans, and rent-to-own stores. They can cost you a lot of money in fees and high interest charges.
- Increase your deductible on your automobile insurance to decrease your premium.
- Freeze your ATM and credit cards in a container of water. This will definitely give you time to think before you make a purchase.

What are your family's favorite tips for managing money?

Self-Assessment 5

1. Using a spending plan, you can set income, savings, and spending goals, then measure (check all that apply):
   - ❑ a. your desire to save money.
   - ❑ b. the actual flow of money through your household.
   - ❑ c. the difference between your goals and the actual flow of money through your household.

2. True or False. You can use your spending to avoid going into debt by making sure that your income is greater than the amount you are spending each month.
   - ❑ a. True
   - ❑ b. False

How did you do? 1.b,c 2.a

Summary Points

- Savings goals are statements about things you would like to buy. You accomplish these goals by managing your spending and regularly putting money aside to reach your goals.
- A spending plan is a strategy for saving and spending money.
- To develop a spending plan: identify your income, track your spending, evaluate the difference between your spending and income, set savings goals, and make a plan.
- Learn to identify your "needs" versus your "wants." Try to decrease the amount you spend on wants.
- Pay off your debt as soon as possible.
- If your expenses are greater than your income, you have two choices—you can increase your income, or you can decrease your expenses.
- Identify your fixed, flexible, and luxury expenses. Think about ways to decrease your flexible and luxury expenses.
- Savings is the difference between your income and spending. Develop three categories of savings goals—emergency reserve fund, short-term goals, and long-term goals. Identify goals with your entire family.
- Use your spending plan as a tool to help you realize your savings goals and take control of your personal finances.

To review the concepts discussed in this session, complete the Journal or Self-Assessment exercise.

Journal

Take a few moments to write down the most important or useful ideas you learned in this workbook. What concepts do you want to remember?

____
____
____
____
____
____

Self-Assessment

Answer the following questions. Use the information in this workbook to help you.

1. Your ability to reach your savings goals is dependent on (check all that apply):
   - ❏ a. your income being greater than your spending.
   - ❏ b. your ability to put aside small amounts of money consistently over time.
   - ❏ c. your ability to balance between paying your bills and putting money toward your goals.

2. List at least two benefits to developing a spending plan.

   ____
   ____

3. You owe $2,000 on your credit card and are being charged 20 percent interest. You will pay the least amount of interest by repaying the maximum amount you can afford each month.
   a. True b. False

4. Why do you evaluate the difference between your spending and income?

   ____
   ____

5. How can you decrease your spending? Give examples.

   ____
   ____

6. How are you going to remember to use your spending plan?

   ____
   ____

See answer section on page 27 to check your work.

Knowledge Review Answers

Self-Assessment

1. Your ability to reach your savings goals is dependent on (check all that apply):

   Answers are all of the following:
   a. *your income being greater than your spending.*
   b. *your ability to put aside small amounts of money consistently over time.*
   c. *your ability to balance between paying your bills and putting money toward your goals.*

2. List at least two benefits to developing a spending plan.

   Answers may include the following:
   - *Help you put aside money to reach your savings goals.*
   - *Help you prepare for expenses.*
   - *Help you prepare for unexpected expenses.*
   - *Help you take control of how you spend your money.*

3. You owe $2,000 on your credit card and are being charged 20 percent interest. You will pay the least amount of interest by repaying the maximum amount you can afford each month.

   a. *True*

4. Why do you evaluate the difference between your spending and income?

   You evaluate the difference between your spending and income to understand the flow of money through your household.

5. How can you decrease your spending? Give examples.

   To decrease your spending, you will need to lower your "flexible" and "luxury" expenses. These are items that you choose to purchase and control the amount of money you spend. For example, it is less expensive to buy food at the grocery store than to go out to a restaurant. It is less expensive to make a card or a gift than to buy one.

6. How are you going to remember to use your spending plan?

   Your answer should fit your personal situation.

Additional Spending Plan Worksheets

Monthly Income Worksheet

List your regular, annual, and seasonal income on the following charts. Then complete the estimated monthly income calculation.

REGULAR MONTHLY INCOME

Salary	$
Food stamps	$
	$
	$
TOTAL	$

ANNUAL & SEASONAL INCOME

Income	Total Income	Divided by 12 (or six)	Estimated Monthly Income
Seasonal earnings			
		TOTAL	$

Calculate your total monthly income.

ESTIMATED MONTHLY INCOME

Regular Monthly Income Total	+	Annual & Seasonal Income Total	=	Estimated Monthly Income Total
$	+	$	=	$

Money Tracker Worksheet

SUNDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

MONDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

TUESDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

WEDNESDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

THURSDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

FRIDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

SATURDAY

What did you buy?	How much did it cost?
	$
	$
	$
	$

Daily Total $ ________

Weekly Total $ ________

Monthly Expenses Worksheet

HOUSING

Rent/Mortgage $ ______
Taxes (property) $ ______
Gas/Electricity $ ______
Water/Sewer/Garbage $ ______
Telephone $ ______
Other $ ______

FOOD

Groceries $ ______
Meals out $ ______
Other $ ______

AUTO

Car payment(s) $ ______
Gas $ ______
Maintenance/Repairs $ ______
Parking $ ______
Other $ ______

HEALTH

Medical $ ______
Dental $ ______
Optical $ ______
Other $ ______

CLOTHING/PERSONAL

Clothes for family $ ______
Shoes $ ______
Work gear $ ______
Laundry/Dry cleaning $ ______
Haircuts $ ______
Nails $ ______
Cosmetics $ ______
Toiletries $ ______
Other $ ______

ENTERTAINMENT

Going out $ ______
Activities $ ______
Vacation/Travel $ ______
Books/Music $ ______
Hobbies $ ______
Cable/Movies/ Movie rental $ ______
Other $ ______

FINANCE

Check cashing $ ______
Cashier's checks $ ______
Bank fees $ ______
Taxes $ ______
Other $ ______

OTHER

Child care $ ______
Child support $ ______
Charity/Tithe $ ______
Education $ ______
Dues/Subscriptions $ ______
Pets $ ______
Allowances $ ______
Gifts $ ______
Cigarettes $ ______
Sporting events $ ______
Children's activities $ ______
Other $ ______

SAVINGS

Savings account $ ______
Investments $ ______
IRA $ ______
Other $ ______

Estimated total monthly expenses $ ______

Annual Expenses Worksheet

Expenses	Total Cost	Divided by 12 (or six)	Total to be Saved Each Month
Example expense	$300/year	$300/12 months = $25 per month	$25
Taxes			
Car insurance			
Property insurance			
Holiday presents			
Travel			
Dues/Subscriptions (newspaper, etc.)			
Home maintenance			
Auto maintenance			
Pet care			

Total to be put aside for annual expenses each month **$** ________________

Debt Tracking Worksheet

Credit Cards/Loans Credit w/Local Business	Total Amount Owed	Annual Interest Rate	Minimum Payment Required	Amount You Can Pay Each Month
Example: credit card	$1,500	19%	$30/month	$50/month

Estimated total debt payment you can make each month $____________

Calculate your total monthly spending.

ESTIMATED TOTAL MONTHLY SPENDING

Estimated Total Monthly Expenses	+	Estimated Total Monthly Annual Expenses	+	Estimated Total Monthly Debt Payment	=	Estimated Total Monthly Spending
$____________	+	$____________	+	$____________	=	$____________

DIFFERENCE BETWEEN MONTHLY INCOME AND MONTHLY SPENDING

Estimated Total Monthly Income	–	Estimated Total Monthly Spending	=	Difference
$____________	–	$____________	=	$____________

Savings Goals Worksheet

Emergency Reserve Fund	Approx. Amount	Target Date

Short-Term Goals	Approx. Cost	Target Date

Long-Term Goals	Approx. Cost	Target Date

Spending Plan Worksheet

	Income for Month	Week 1	Week 2	Week 3	Week 4	Total Income for Month	
Income							
Other $							

a TOTAL INCOME ____________

	Savings Goal for Month	Week 1 Saved	Week 2 Saved	Week 3 Saved	Week 4 Saved	Total Saved for Month	
Savings							

b TOTAL SAVINGS ____________

	Amt. Budgeted for Month	Week 1 Spent	Week 2 Spent	Week 3 Spent	Week 4 Spent	Total Spent for Month	Difference (Budgeted – Spent)
Spending							

Spending Plan Worksheet (cont.)

	Amt. Budgeted for Month	Week 1 Spent	Week 2 Spent	Week 3 Spent	Week 4 Spent	Total Spent for Month	Difference (Budgeted – Spent)
Spending							

C TOTAL SPENDING ____________

D ***Assess Your Monthly Finances***

Total Income (a) – Total Savings (b) – Total Spending (c)

$____________ – $____________ – $____________ = $____________

Glossary

Account statement – This is a record of your account activity over a specific period of time.

Annual percentage rate (APR) – The annual interest rate that reflects all of the costs of financing. This rate probably will be higher than the original interest rate quote, because it includes all other costs of getting credit, such as loan fees.

Assets – Financial assets are cash or something that can be converted into cash, such as a savings account, stocks, or real estate.

Automated teller machine (ATM) – ATMs are machines that provide many of the same services as a financial institution. Many financial institutions own ATMs to provide convenient service to their customers. There are various fees attached to using an ATM for financial transactions.

Available balance – This is the amount of money immediately available in your account. This amount does not reflect any withdrawals or deposits that have not yet cleared your account.

Balloon payment – This is the payment that is due at the end of a balloon loan. A balloon loan offers a low interest rate for short-term financing. At the end of the term, the loan requires refinancing or paying off the outstanding balance with a lump-sum payment.

Bounced check – A check that is returned to you because there is not enough money in your account to cover it.

Canceled check – Once a check has been processed and subtracted from the account on which it was written, it is called a canceled check. Canceled checks are often used as "proofs of payment," in place of receipts.

Cashier's check – This type of check is as good as cash. To issue a cashier's check, the financial institution will deduct funds from your account and write the check from its own account. There is usually a fee for a cashier's check.

Check register – A tool for keeping track of the daily balance in your checking account.

Clears – A check you write clears when the amount of the check has been withdrawn from your checking account by the financial institution.

Co-borrowers – Two or more persons who legally agree to take out and be responsible for paying off a loan together.

Collateral – Something of value that the borrower commits to guarantee repayment of a loan.

Commitment letter – A formal offer by a lender stating the terms under which a financial institution agrees to lend money. Sometimes it is called a "loan commitment."

Contingency – A condition that must be met before a contract is "legally binding," that is, before you must legally complete what was agreed to in the contract.

Credit – Credit is when you borrow funds with the intent to repay them.

Credit bureau – An organization that keeps records of people's repayment histories (i.e., credit reports).

Credit history – A list of your debts and regular monthly expenses, including how much you owe and how timely you make your payments.

Credit inquiry – When you apply for credit, the lender will request a copy of your credit report. Each time your credit report is requested from the credit bureau it is documented on your report as an "inquiry."

Credit rating – A rating that indicates how good a credit risk you are. Credit ratings are based on your personal credit history.

Credit report – A report that reflects a person's credit history. The lender orders this report from a credit bureau when you apply for a loan.

Credit score – A process used by lenders to evaluate a loan application. A credit scoring system is based on the lending organization's historical experience with borrowers.

Customer agreement – A document provided by financial institutions that describes the costs and features of their accounts.

Debit – A withdrawal from an account. If you write a $25 check, your account will have a debit of $25 when the check clears.

Debit card – A card that can be used at an ATM to conduct financial transactions or at a point of sale terminal (POS) to buy something.

Debt-to-income ratio – A ratio that compares a loan applicant's total monthly debt to their total income (total monthly debt/ total monthly income = debt-to-income ratio). Lenders use a debt-to-income ratio to help them determine an applicant's capacity to repay a loan. It is generally accepted that a person's total debt should not exceed 45 percent of the person's total income each month.

Debts – Money you owe.

Deposit – To put money into your account.

Depository services – Checking and savings account services offered by some financial institutions.

Default – Failure to pay back money. If you do not make agreed-upon payments, you default on your loan.

Direct deposit – Funds deposited directly into your account. With your agreement, payroll earnings, Social Security benefits, retirement earnings, and other checks you receive on a regular basis may be direct-deposited into your account.

Down payment – The part of a purchase price that you pay when you buy an item such as a car or a house. The lender usually seeks a down payment to show that you are willing to invest in a purchase.

Economy – The way a society organizes to meet the physical needs of its people.

Electronic funds transfer (EFT) – Money transactions to or from checking and savings accounts that do not require paper (checks or cash) but use computer technology. Examples include direct deposit, ATM, and debit card transactions.

Emergency reserve fund – Money you put into an account and save for an emergency.

Endorse – Endorsing a check is when you sign the back of a check that is made out to you in order to release the funds.

Expenses – The amount of money you spend on a regular basis.

Federal Deposit Insurance Corporation (FDIC) – The organization that insures accounts at federal government-regulated financial institutions for up to $100,000 per account.

Fixed expenses – Monthly household costs that do not change.

Flexible expenses – Monthly household costs that you can control, such as groceries.

Forgery – When a person purposefully tries to withdraw money from your account by pretending to be you.

Gross annual income – Total yearly income from all sources before taxes are deducted.

Hold – The number of days a financial institution will hold a check before crediting your account.

Installment credit – This type of credit allows you to borrow a specific amount of money at one time for a defined purpose. You make a set payment each month.

Interest – A fee paid for the use of money. A financial institution will pay you interest for keeping your money at their location. You will pay interest to a financial institution for the use of borrowed funds.

Joint applicant – When two or more people apply together for a loan.

Loan processing – The steps a lender takes to decide if a buyer can qualify for a loan.

Long-term goals – Savings goals you can accomplish by consistently setting aside money for several years.

Luxury expenses – Monthly costs that you choose, such as new clothes and going out for meals.

Market economy – An economic system where goods and services must be purchased from others.

Market value – The expected sale price of something.

Minimum balance – Necessary amount of money on deposit to qualify for special services.

Minimum payment – Smallest possible monthly payment.

Monthly statement – Account summary mailed monthly to a customer.

National Credit Union Share Insurance Fund (NCUSIF) – Insures accounts at federal government-regulated credit unions for up to $100,000 per account.

Net income – Your total income after taxes are taken out.

Noninstallment or service credit – Some businesses and utility companies offer this type of credit. It allows you to pay for a used service at a later date.

Nonsufficient funds (NSF) – A term meaning that the amount of money in your account is less than the amount you would like to withdraw. Also referred to as insufficient funds.

Nontraditional credit history – A credit history you can prepare if you do not have credit cards or have never had a loan. It can include receipts and canceled checks from your monthly payments for rent, utilities, and other bills.

Overdraft protection – A line of credit to cover nonsufficient funds.

Overdrawn – When more is withdrawn from an account than the existing balance.

Payment factor table – A table that you can use to calculate monthly payments and the cost of credit for installment loans.

Personal identification number (PIN) – Your password to your account at a financial institution. You can use your PIN to gain access to your account at an ATM or point of sale terminal (POS).

Point of sale terminal (POS) – A terminal consumers use to make purchases with a debit card at business locations.

Predatory lender – A lender that directs a borrower away from loans with more affordable interest rates. Instead, the applicant is offered a loan with a high interest rate, questionable fees, or unnecessary charges.

Principal – The amount you can actually borrow.

Promotional inquiry – When a company requests a copy of your credit report to "pre-approve" you for a credit card or special offer, it is recorded on your report. This type of inquiry is listed separately from credit inquiries that you request. Potential creditors will only see the credit inquiries that you initiate.

Purchase and sale agreement – A written contract that the buyer and seller sign. It includes all of the terms and conditions of the sale.

Qualify – To determine how much money you are able to borrow.

Reconciling – To balance your checkbook by comparing your check register with your account statement.

Repossess – When a financial institution takes ownership of an item that was purchased using credit because the borrower is not able to repay the loan.

Revolving credit – This type of credit allows you to borrow money at any time up to a set limit. As you pay the borrowed money back, it becomes available again to borrow (e.g., credit cards).

Savings goals – Statements about things you wish you could afford.

Secured credit – This type of credit requires that you provide something of value to guarantee repayment of a loan.

Secured credit card – This type of credit card requires that you deposit a certain amount of cash in a savings account to guarantee your credit card.

Service charge – Financial institutions sometimes charge fees for specific services. These fees will vary depending on the type of account you have. Ask about service charges and fees before you select a financial institution or a type of account.

Short-term goals – Savings goals you can accomplish in a few weeks or months by consistently setting aside money.

Signature card – A card that you sign when you open an account. This card is kept on file at the financial institution and used to verify your signature when you cash checks. This helps to prevent unauthorized people from gaining access to your account.

Spending plan – A strategy for saving and spending money. It can be used as a guide to help you track the flow of money through your household and how that money needs to be divided to meet expenses and savings goals.

Stop payment – An order by a customer not to release issued funds (i.e., not to cash a check).

Terms – The conditions of a loan, including the type, size of down payment, amount you can borrow, interest rate, and length of time to repay.

Tracking – To become aware of the flow of money through your household.

Unsecured credit – This type of credit does not require you to provide something of value to guarantee repayment of a loan.

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